



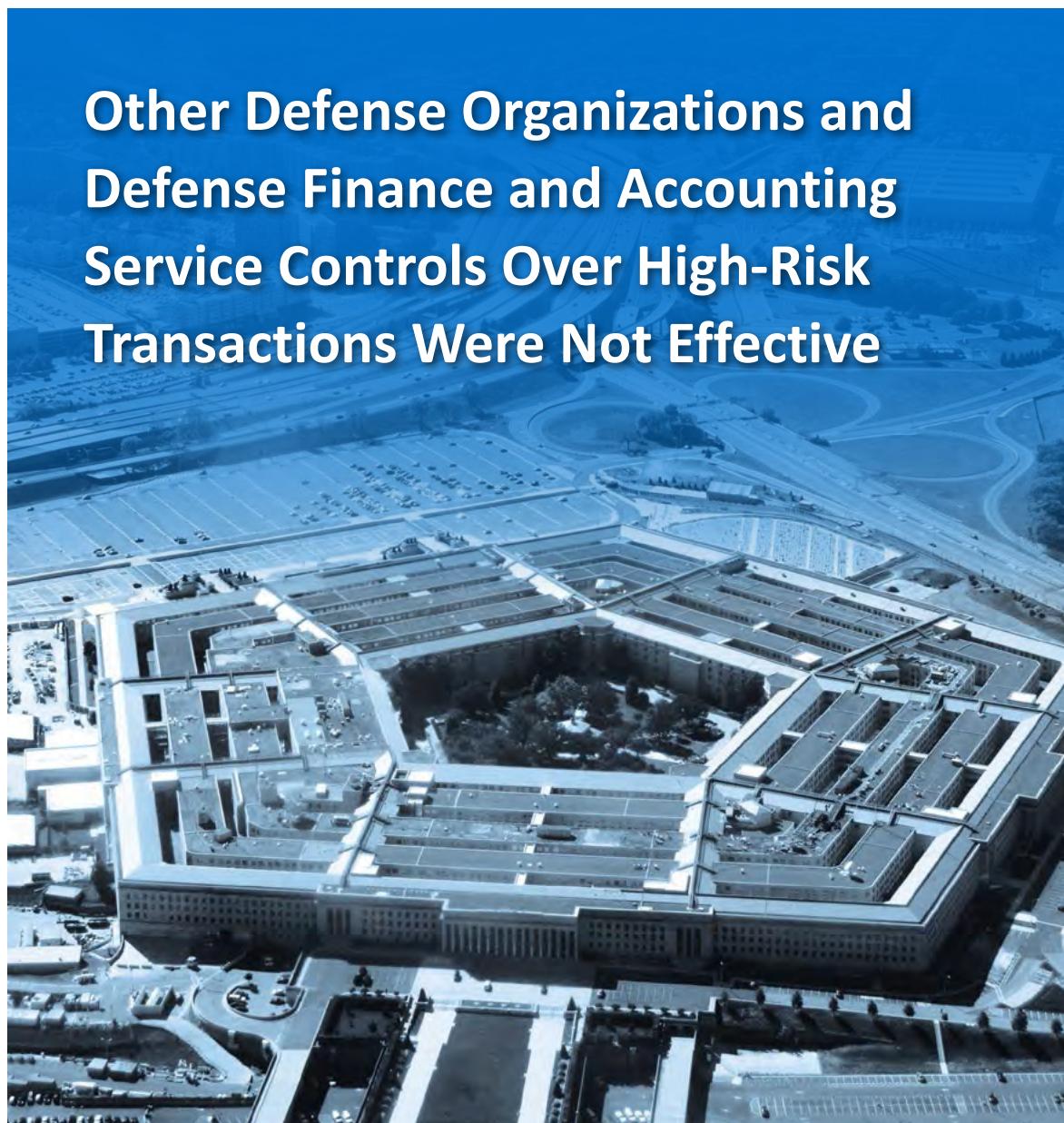
# INSPECTOR GENERAL

---

*U.S. Department of Defense*

MARCH 28, 2016

## Other Defense Organizations and Defense Finance and Accounting Service Controls Over High-Risk Transactions Were Not Effective



INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

## Mission

*Our mission is to provide independent, relevant, and timely oversight of the Department of Defense that supports the warfighter; promotes accountability, integrity, and efficiency; advises the Secretary of Defense and Congress; and informs the public.*

## Vision

*Our vision is to be a model oversight organization in the Federal Government by leading change, speaking truth, and promoting excellence—a diverse organization, working together as one professional team, recognized as leaders in our field.*



For more information about whistleblower protection, please see the inside back cover.



# Results in Brief

## *Other Defense Organizations and Defense Finance and Accounting Service Controls Over High-Risk Transactions Were Not Effective*

March 28, 2016

### Objective

We determined whether Other Defense Organizations (ODOs) had appropriate controls in place over the procure-to-pay process to ensure accurate, complete, and auditable line-item data for financial statement audits. Specifically, we reviewed whether controls were in place to ensure the accurate and timely update of ODO expenditures identified as problem disbursements.

### Finding

For the ODOs we reviewed, controls did not effectively ensure the accurate and timely update of ODO expenditures identified as problem disbursements.

As a result, the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) could not use detail-level disbursement and collection detail provided by the Defense Finance and Accounting Service (DFAS) to support U.S. Treasury index 97 Fund Balance With Treasury reconciliations.

OUSD(C) must be able to reconcile (match) detail-level data to U.S. Treasury data to demonstrate that controls are in place to produce a complete universe of transactions for auditable financial statements. Until a complete universe can be produced, OUSD(C) may be unable to resolve its longstanding Fund Balance With Treasury material weakness or achieve audit readiness.

### Recommendations

We recommend that the Under Secretary of Defense (Comptroller) and the Deputy Chief Management Officer:

- develop a coordinated and standardized strategy with the DFAS and the ODOs to exchange and manage problem disbursement data; and
- oversee the strategy's implementation to ensure standardization.

We also recommend that the Directors, ODOs, and DFAS revise service-level agreements based on the end-to-end business process identified. These agreements should include clearly defined roles and responsibilities, internal controls, performance metrics, and quality assurance plans to provide detail-level data and timely correct and reduce problem disbursements.

### Management Comments and Our Response

Comments from the Deputy Chief Financial Officer, responding for the Under Secretary of Defense (Comptroller) and the Deputy Chief Management Officer; the Principal Director for Business Operations, Defense Security Cooperation Agency (DSCA), responding for the Director, DSCA; and the Deputy Director, Missile Defense Agency (MDA), responding for the Director, MDA, addressed all specifics of the recommendations, and no additional comments are required.

However, comments from the Deputy Director of Operations, DFAS, responding for the Director, DFAS, and the Director of Finance, Defense Logistics Agency (DLA), responding for the Director, DLA, partially addressed the recommendations. In addition, the Director, Defense Health Agency (DHA) did not provide comments to the draft report. We request Deputy Director of Operations, DFAS; Director of Finance, DLA; and Director, DHA, provide comments to the final report by April 29, 2016.

Please see the Recommendations Table on the back of this page.

## ***Recommendations Table***

<b>Management</b>	<b>Recommendations Requiring Comment</b>	<b>No Additional Comments Required</b>
Under Secretary of Defense (Comptroller)		1.a, 1.b
Deputy Chief Management Officer		1.a, 1.b
Director, Defense Logistics Agency	2	
Director, Defense Security Cooperation Agency		2
Director, Defense Health Agency	2	
Director, Missile Defense Agency		2
Director, Defense Finance and Accounting Service	2	

Please provide Management Comments by April 29, 2016.



**INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
4800 MARK CENTER DRIVE  
ALEXANDRIA, VIRGINIA 22350-1500**

March 28, 2016

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/  
CHIEF FINANCIAL OFFICER  
DEPUTY CHIEF MANAGEMENT OFFICER  
DIRECTOR, DEFENSE LOGISTICS AGENCY  
DIRECTOR, DEFENSE SECURITY COOPERATION AGENCY  
DIRECTOR, MISSILE DEFENSE AGENCY  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE  
DIRECTOR, DEFENSE HEALTH AGENCY

SUBJECT: Other Defense Organizations and Defense Finance and Accounting Service Controls  
Over High-Risk Transactions Were Not Effective (DODIG-2016-064)

We are providing this report for your review and comment. Other Defense Organizations and the Defense Finance and Accounting Service did not have effective controls in place to ensure the accurate and timely update of expenditures identified as problem disbursements. As a result, the Office of the Under Secretary of Defense (Comptroller) could not use detail-level disbursement and collection detail provided by the Defense Finance and Accounting Service to support U.S. Treasury index 97 Fund Balance With Treasury reconciliations. We performed this audit in accordance with generally accepted auditing standards.

We considered comments on a draft of this report. DoD Instruction 7650.03 requires that recommendations be resolved promptly. Comments from the Director, Defense Logistics Agency and Director, Defense Finance and Accounting Service, partially addressed the recommendation. We request additional comments from DLA and DFAS on Recommendation 2. In addition, the Director, Defense Health Agency, did not provide comments to the draft report. Please provide comments that state whether you agree or disagree with the finding and recommendations. If you agree with our recommendations, describe what actions you have taken or plan to take to accomplish the recommendations and include the completion dates of your actions. If you disagree with the recommendations or any part of them, please give specific reasons why you disagree and propose alternative action if that is appropriate. You should also comment on the internal control weaknesses discussed in the report. Therefore, we request comments on the recommendations and internal control weaknesses by April 29, 2016.

Please send a PDF file containing your comments to [audfmr@dodig.mil](mailto:audfmr@dodig.mil). Copies of your

comments must have the actual signature of the authorizing official for your organization. We cannot accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945 (DSN 329-5945).



Lorin T. Venable, CPA  
Assistant Inspector General  
Financial Management and Reporting

# **Contents**

---

## **Introduction**

Objective	1
Background	1
Review of Internal Controls	3

## **Finding. ODOs and DFAS Personnel Lacked Effective Controls Over Problem Disbursements**

ODOs and DFAS Lacked a Complete Universe of Problem Disbursements	4
Problem Disbursements Were Not Resolved in a Timely Manner	6
DFAS and ODOs Need a Coordinated Strategy to Achieve Audit Readiness	7
Impact on Audit Readiness Efforts	10
Management Comments on the Finding and Our Response	11
Recommendations, Management Comments, and Our Response	13
Management Comments Not Received	16
Management Unsolicited Comments	17

## **Appendix**

Scope and Methodology	18
Use of Computer-Processed Data	19
Use of Technical Assistance	19
Prior Coverage	19

## **Management Comments**

Under Secretary of Defense Comptroller	20
Deputy Chief Management Officer	22
Defense Logistics Agency	23
Defense Security Cooperation Agency	24
Missile Defense Agency	26
Defense Finance and Accounting Service	27
Defense Health Agency	32

<b>Acronyms and Abbreviations</b>	33
-----------------------------------	----



# Introduction

## Objective

We determined whether Other Defense Organizations (ODOs) had appropriate controls in place over the procure-to-pay process to ensure accurate, complete, and auditable line-item data for the Schedule of Budgetary Activities. Specifically, we determined whether controls were in place to ensure the accurate and timely update of ODO expenditures identified as problem disbursements. See Appendix A for a discussion of the scope and methodology and prior coverage related to the objectives.

We updated the objective to include all financial statement audits, and not just schedule of budgetary activity (SBA) audits, because not all ODOs will undergo SBA audits as a result of an April 2015 policy change.<sup>1</sup> Specifically, some of these organizations, including Defense Logistics Agency and Defense Health Agency, will undergo full financial statement audits. Of the 52 ODOs, we selected 4 to review for this audit:

- Defense Health Agency (DHA);
- Defense Logistics Agency (DLA);
- Defense Security Cooperation Agency (DSCA); and
- Missile Defense Agency (MDA).

## Background

DoD Regulation 7000.14-R<sup>2</sup> defines a disbursement as the amount paid by a Federal agency to liquidate government obligations. Disbursements must be accurately matched to their corresponding obligations. When this match does not occur, the disbursement is classified as either an unmatched disbursement or a negative unliquidated obligation. Unmatched disbursements are disbursements recorded in the accounting system but not matched to an obligation. Negative unliquidated obligations are disbursements that exceed the amount of the matched obligation. Another type of disbursement—an in-transit disbursement—is one that has been paid but not processed against the corresponding obligation.

While there is no universal definition of problem disbursements, the three types of disbursements defined here—unmatched disbursements, negative unliquidated obligations, and in-transit disbursements (greater than 60 days old)—are

<sup>1</sup> "Financial Improvement and Audit Readiness (FIAR) Guidance," April 2015 required ODOs to incorporate proprietary and valuation information into audit readiness efforts and encouraged components to undergo full financial statement audits.

<sup>2</sup> DoD Regulation 7000.14-R, "DoD Financial Management Regulation."

generally recognized to be problem disbursements<sup>3</sup> and reported in the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) metric reports. Problem disbursements are high-risk to Fund Balance With Treasury (FBWT) reconciliations.

## ***Fund Balance With Treasury and Treasury Index 97***

The FBWT is an asset account on the general ledger that reflects the available budgetary spending authority of Federal agencies. Collections and disbursements by agencies increase or decrease the balance of this account. The Treasury Financial Manual<sup>4</sup> requires that agencies reconcile (match) their FBWT accounts to Treasury account statements each month to ensure the integrity and accuracy of their internal and Government-wide financial report data.

As of September 30, 2015, the Office of the OUSD(C) reported that its U.S. Treasury index (TI) 97 FBWT account totaled \$88.8 billion<sup>5</sup>, 19 percent of OUSD(C)'s FBWT. The TI-97 FBWT account is an aggregate account that includes all ODOs and does not identify individual ODOs that share the account. As a service provider, the Defense Finance and Accounting Service (DFAS) disburses FBWT funds for ODOs.

## ***Roles and Responsibilities***

The Office of the Under Secretary of Defense (Comptroller), Financial Improvement and Audit Readiness Directorate (FIAR) manages the FIAR Plan and ensures that DoD-wide audit readiness efforts progress and are integrated into transformation activities across the Department. In accordance with the FY 2008 National Defense Authorization Act, FIAR develops and issues guidance for audit readiness methodologies and financial improvement for reporting entities and service providers. The guidance defines the Department's goals, priorities, strategy, and method to become audit ready.

DFAS standardizes, consolidates, and improves financial functions throughout DoD. DFAS is a service provider that supports the military services and ODOs. As the accounting service provider for ODOs, DFAS Indianapolis and Columbus reconcile FBWT monthly. In addition to ensuring that ODOs meet FBWT requirements, DFAS processes disbursements and reconciles, validates, and adjusts trial balances in the financial reporting process. We reviewed four ODOs that relied on DFAS to disburse ODO's FBWT funds.

- DHA, formerly the TRICARE Management Activity, provides health benefits for military personnel, military retirees, and their dependents.

---

<sup>3</sup> This statement was made by the then DoD Deputy Inspector General for Auditing before the Defense Financial Management and Auditability Reform Panel of the House Armed Services Committee on September 22, 2011.

<sup>4</sup> Treasury Financial Manual, Volume 1, Part 2, Chapter 5100, "Reconciling Fund Balance With Treasury Accounts," March 29, 2012.

<sup>5</sup> This amount excludes Foreign Military Sales.

- DLA provides consumable items such as food, fuel, medical supplies, and spare parts to the military services, ODOs, and other federal agencies.
- DSCA is the Department's lead agency for the execution of Security Cooperation programs. Foreign military sales<sup>6</sup> is one of DSCA's key programs, and its customers include the State Department, U.S. Treasury, military services, ODOs, and the Security Cooperation offices.
- MDA develops, tests, and fields a ballistic missile defense system. MDA works closely with the military services to ensure that its program is relevant to the current threats to the United States.

## **Material Weakness**

Since 2001, DoD has reported a material weakness in reconciling FBWT accounts. These deficiencies include ineffective processes and controls; collections and disbursements reported to the U.S. Treasury but are not recorded in the Department's general ledger; and insufficient and inaccurate documentation. According to the FY 2014 DoD Agency Financial Report, DoD planned to correct the material weakness by yearend FY 2015. However, DoD did not make the necessary corrections and continued to report the material weakness in reconciling FBWT accounts in its FY 2015 Annual Financial Report.

## **Review of Internal Controls**

DoD Instruction 5010.40<sup>7</sup> requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. The ODOs and DFAS could not provide a universe of detail or summary-level problem disbursement transactions that was complete, accurate, or reliable to perform FBWT reconciliations. We will provide a copy of the report to the senior official responsible for internal controls in the OUSD(C).

<sup>6</sup> DSCA problem disbursements included foreign military sales transactions. Although foreign military sales transactions do not directly impact FBWT, the transactions were included in problem disbursements and do impact Foreign Military Sales Trust Fund account balances.

<sup>7</sup> DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

## Finding

### ODOs and DFAS Personnel Lacked Effective Controls Over Problem Disbursements

Although DHA, DLA, DSCA, and MDA asserted audit readiness, controls were not effective to ensure the accurate and timely update of ODO expenditures that DFAS identified as problem disbursements. Specifically,

- ODO and DFAS personnel did not have a universe of detail-level transactions for problem disbursements that were accurate and complete; and
- ODO personnel did not always meet established OUSD(C) metrics related to the timely correction and posting or reduction of high-risk transactions to FBWT.

These conditions occurred because the ODOs and DFAS did not have an effective coordinated strategy to manage and exchange data for problem disbursements within TI-97.

As a result, OUSD(C) could not use detail-level disbursement and collection detail provided by DFAS to support TI-97 FBWT reconciliations. OUSD(C) must be able to reconcile at the detail level to demonstrate it has controls in place to produce a complete universe of transactions for auditable financial statements. Until a complete universe can be produced, OUSD(C) may be unable to resolve its longstanding FBWT material weakness or achieve audit readiness.

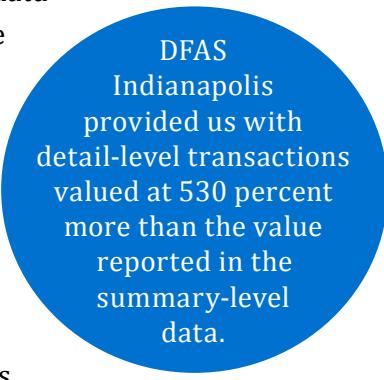
### ODOs and DFAS Lacked a Complete Universe of Problem Disbursements

ODO and DFAS personnel could not provide a reconciled universe of transactions for problem disbursements. In December 2014, DFAS officials stated that they could not provide problem disbursement transactions for all 52 ODOs (TI-97) from April 2013 through September 2014 in a timely manner. Therefore, we limited our review to four ODOs: MDA, DLA, DHA, and DSCA. These four ODOs relied on DFAS to provide a universe of problem disbursements to support FBWT reconciliations and account balances for foreign military sales. It took DFAS 2 months to provide a universe of problem disbursements for the four ODOs and the period under review. For September 2014, DFAS provided 433,095 detail-level transactions with a total absolute value<sup>8</sup> of \$16.5 billion for MDA, DLA, DHA, and DSCA. However, the data provided by DFAS were not valid, accurate, reliable, or complete.

<sup>8</sup> A value of change, whether a decrease or increase in cost.

Of the detail-level transactions for the four ODOs valued at \$16.5 billion, \$10.2 billion (62 percent) was attributed to Army General Fund (TI-21) and the Executive Office of the President (TI-11)—not TI-97 transactions. Another \$1.8 billion (11 percent) was attributed to TI-97 transactions, but not to the four ODOs that we reviewed. DFAS Indianapolis personnel could not explain the reason those transactions were included in the universe. After removing the \$10.2 billion of TI-21 and TI-11 transactions, and removing \$1.8 billion of TI-97 transactions not attributed to the four ODOs that we reviewed, we also identified \$11.9 million in duplicate transactions.

After eliminating the invalid and duplicate transactions from the total universe of \$16.5 billion, we identified \$4.4<sup>9</sup> billion in detail-level problem disbursements. We compared the detail-level data with the summary-level data provided by DFAS for September 2014 to ensure that the amounts matched. However, we identified material differences between the two sets of data. Specifically, DFAS Indianapolis provided us with detail-level transactions valued at 530 percent more than the value reported in the summary-level data. DFAS Cleveland, Limestone, and Rome did not provide any detail-level transactions although the summary-level data showed that problem disbursements for TI-97 funds were processed by these locations. As a result, neither the detail nor summary-level data were complete.



DFAS Indianapolis provided us with detail-level transactions valued at 530 percent more than the value reported in the summary-level data.

In addition, the summary-level data for DHA were not consistent between DFAS and DHA-Contract Resource Management. For example, in September 2014 DFAS reported \$1.5 billion in DHA problem disbursements. According to the DHA Comptroller, about 91 percent of the transactions belonged to DHA-Contract Resource Management. However, according to DHA-Contract Resource Management personnel these transactions are not representative of the organization's problem disbursements. Instead, the transactions represented all DHA-Contract Resource Management disbursements. As of August 2015, DHA-Contract Resource Management reported an estimated \$443,000 in problem disbursements—a material difference from what was reported by DFAS personnel. DFAS was unaware of a problem with the data and was unsure of the cause.

---

<sup>9</sup> \$0.1 is due to rounding.

## Problem Disbursements Were Not Resolved in a Timely Manner

The four ODOs reviewed did not consistently meet established OUSD(C) metrics to correct and post or reduce problem disbursements in a timely manner. OUSD(C) established the following metrics<sup>10</sup> to reduce problem disbursements or post in a timely manner.

- Unmatched disbursements and negative unliquidated obligations less than 120 days old must be reduced by 10 percent per year.
- Unmatched disbursements and negative unliquidated obligations are overaged<sup>11</sup> if greater than 120 days old.
- In-transit disbursements and collections increase more than 5 percent over the previous month's value, and are overaged if greater than 60 days old.

The following Table shows that the four ODOs were not timely in correcting problem disbursements as of September 2014. Of the total \$3.7 billion in unmatched disbursements, negative unliquidated obligations, and in-transit disbursements, \$849 million (23 percent) were not corrected and posted timely. Specifically, \$111.40 million in unmatched disbursements and negative unliquidated obligations remained uncorrected for more than 121 days, while \$737.69 million in in-transit disbursements remained uncorrected for more than 61 days.

*Table. Dollar Amount of Problem Disbursements Not Corrected and Posted in a Timely Manner*

ODO	Unmatched Disbursements and Negative Unliquidated Obligations			In-Transit Disbursements		
	Total UMDs and NULOs	0-120 Days	121+ Days	Total In-transits	0-60 Days	61+ Days
DHA	\$15.14	\$4.30	\$10.84	\$1439.61	\$1406.23	\$33.38
DLA	190.55	138.38	52.17	612.75	235.64	377.11
DSCA	413.81	365.73	48.08	835.36	624.76	210.60
MDA	23.90	23.59	.31	195.36	78.76	116.60
<b>Total</b>	<b>\$643.40</b>	<b>\$532.00</b>	<b>\$111.40</b>	<b>\$3083.08</b>	<b>\$2345.39</b>	<b>\$737.69</b>

Note: All dollar values are in absolute value and in millions.

Source: DFAS September 2014 Financial Operations Metrics reports

<sup>10</sup> Metrics for resolving problem disbursements were established by OUSD(C) in accordance with the DoD Regulation 7000.14-R, volume 3, chapter 11.

<sup>11</sup> DoD Regulation 7000.14-R defines an “overaged” disbursement as a disbursement that is not timely matched to a corresponding obligation.

Although MDA did not meet all of the OUSD(C) metrics, MDA did meet the OUSD(C) metric for reducing unmatched disbursements. According to MDA, it collaborated with DFAS and the Defense Agencies Initiative Program Management Office on ways to reduce its problem disbursements. Based on this collaboration, MDA stopped suballotting funds and instead began sending funds using military interdepartmental purchase requests to directly fund the activity.

## **DFAS and ODOs Need a Coordinated Strategy to Achieve Audit Readiness**

DFAS and ODOs did not have a coordinated strategy to manage and exchange data for TI-97 problem disbursements. Specifically, the responsibility for problem disbursements was not centralized or documented as part of the Service-level agreements, and the data exchange between DFAS centers was complex and lacked standardization.

### ***Operations Were Not Centralized***

Responsibility for problem disbursements was not centralized between ODOs and DFAS, resulting in shared responsibility to correct problem disbursements across multiple DFAS centers. This shared responsibility may have prevented the centers with primary responsibility from exercising appropriate oversight to correct transactions. For example, DFAS Indianapolis and DFAS Columbus shared responsibility to service ODOs. However, TI-97 funds were executed across all DoD components and multiple DFAS locations processed transactions for a single ODO. Although DLA was primarily supported by DFAS Columbus, at least three other DFAS locations also processed disbursements for DLA during the scope of our review. To ensure a complete transaction universe for DLA, DFAS Columbus had to coordinate with all DFAS locations; this decentralized process led to a loss of accountability for the transactions and made the process to correct problem disbursements inefficient.

### ***Roles and Responsibilities in Service-Level Agreements Were Not Clearly Defined***

DFAS and the ODOs did not clearly define roles and responsibilities for processing and resolving problem disbursements in service-level agreements. Service-level agreements hold DoD entities accountable to complete services as agreed to and measure the performance of the service. However, based on the service-level agreements established between DFAS and the four ODOs we reviewed, the ODOs delegated responsibility for their respective financial statements to DFAS without establishing appropriate oversight or quality assurance measures.



The agreements between ODOs and DFAS to resolve problem disbursements contained poorly defined roles, responsibilities, and internal controls, and did not include quality assurance measures.

Specifically, the agreements between ODOs and DFAS to resolve problem disbursements contained poorly defined roles, responsibilities, and internal controls, and did not include quality assurance measures. For example, in its March 31, 2014, assertion package for audit readiness, DSCA asserted audit readiness for its Statement of Budgetary Resources-Appropriations Received. However, DSCA did not assert audit readiness to FBWT and outlays (disbursements) because, according to DSCA, FBWT and outlays were the responsibility of DFAS.

FBWT and outlays are both material accounts on DSCA financial statements. However, DSCA's service-level agreement with DFAS did not contain oversight or other methods to ensure the reliability of DSCA data. Furthermore, according to DSCA personnel, DSCA did not establish any other processes to ensure that problem disbursement data processed by DFAS were accurate or complete. Regardless of the responsibility delegated to DFAS, DSCA was ultimately responsible for its end-to-end processes, including FBWT and producing accurate and complete financial statements.

According to DoD Regulation 7000.14-R and FIAR guidance, ODOs are responsible for the accuracy and completeness of the data on their respective financial statements. FIAR specifically states that ODOs are also responsible for the effectiveness of controls over financial activities outsourced to DFAS. In addition, the OUSD(C), FIAR Directorate identified dependencies on DFAS processes as a "roadblock" to achieving audit readiness. To minimize this roadblock, ODO's should demonstrate that the tasks of service providers have been integrated into their end-to-end business processes and treat service provider processes and controls as a part of their own. For this to occur, ODOs and DFAS need to cooperate and agree on the roles and responsibilities of operations within a service-level agreement. ODO and DFAS personnel should update service-level agreements to identify the problem disbursement end-to-end process and include clearly defined roles and responsibilities, internal controls, performance metrics, and quality assurance plans that provide problem disbursement detail-level data and timely resolve and reduce problem disbursements.

## ***Method Used to Exchange Data Was Complex, Not Standardized***

Each DFAS location collected problem disbursement data monthly for its customers: the ODOs, the military Services, and the State Department, all of which executed TI-97 funds and were at risk for creating problem disbursements. From April 2013 through September 2014, DFAS received data from more than 271 different sources.<sup>12</sup> Each used various methods to submit problem disbursement information to DFAS. Some submitted the information through e-mail while others used a shared drive or downloaded data from multiple databases. These various methods and data sources made the exchange of data complex.

Because of numerous data sources, DFAS Columbus and Indianapolis did not have oversight over all of the data sources and could not validate the accuracy and completeness of the data they received. DFAS Indianapolis personnel could not identify 186 of 271 (69 percent) of its data sources. Consequently, if DFAS Indianapolis could not determine the sources of the problem disbursement data, then it could not determine if it received the complete universe of transactions for reporting problem disbursements and could not reconcile FBWT to the transaction detail level.

To assist with reconciling FBWT, DFAS developed the Defense Reconciliation and Reporting Tool (DRRT).

### *Defense Reconciliation and Reporting Tool Was Not Fully Implemented or Consistently Used*

DFAS developed DRRT to identify detail-level data and reconcile TI-97 FBWT accounts. The tool stores detail-level data, including problem disbursements, to perform the reconciliations. However, DFAS did not implement the tool for three of the four ODOs reviewed until October 2014. As a result, three of the four ODOs (DHA, DSCA, and MDA) did not consistently use information from the tool to perform reconciliations.

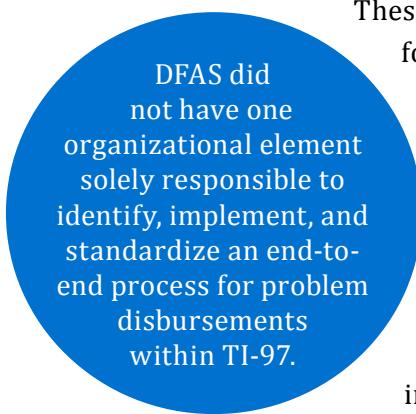
During our audit, DSCA began to use information from the tool in February 2015 and MDA in March 2015. DHA did not use information from DRRT and did not plan to use it because DHA-Contract Resource Management successfully obtained an unmodified audit opinion using another process. Rather than use DFAS, DHA-Contract Resource Management reported its expenditures directly to the U.S. Treasury, which allowed it to manually identify and reconcile its problem disbursements.

---

<sup>12</sup> Data sources included organizations and automated systems.

According to DFAS, DLA was the only organization that had fully transitioned to DRRT and consistently used information from the tool. However, DRRT did not capture all of DLA's problem disbursement transactions for FBWT reconciliations. Financial managers must be able to identify unmatched disbursements and in-transit disbursements to perform FBWT reconciliations. According to DFAS Columbus, DFAS personnel had to manually identify additional transactions outside of the tool to perform reconciliations because problem disbursement data from the tool were incomplete due to the timing of the transactions. However, the transactions that we received were between 3 and 21 months old, indicating that the timing difference may not be the root cause for incomplete data within the tool. As a result, the use of DRRT by the ODOs is likely to remain inconsistent and unreliable.

### *Coordinated Strategy Needed to Effectively Manage Problem Disbursements*



These complexities and standardization challenges for reducing problem disbursements were further compounded because DFAS did not have one organizational element solely responsible to identify, implement, and standardize an end-to-end process for problem disbursements within TI-97. The OUSD(C), FIAR Directorate is responsible for ensuring that financial audit readiness activities continue to mature and are integrated across the Department. The Office of the Deputy Chief Management Officer (DCMO) is responsible for synchronizing, integrating, and coordinating DOD business operations. The OUSD(C) and DCMO, in coordination with DFAS and the ODOs, should develop a coordinated and standardized strategy to exchange and manage problem disbursement data. The strategy should focus on the end-to-end integrated business process that includes the identification of compensating controls at the ODOs. The OUSD(C) and DCMO should oversee the implementation to ensure that the process is standardized and systemized.

### **Impact on Audit Readiness Efforts**

OUSD(C) could not use detail-level disbursement data provided by DFAS to support TI-97 FBWT reconciliations. OUSD(C) must be able to reconcile at the detail level to demonstrate it has controls in place to produce a complete universe of transactions for auditable financial statements.

OUSD(C) identified 11 common audit readiness “dealbreakers” that prevented reporting activities from demonstrating audit readiness or succeeding in audits as part of its FIAR Guidance, April 2015. Based on the results of this audit, the following three dealbreakers existed for each of the four ODOs that we reviewed.

- The general ledger<sup>13</sup> does not reconcile to transaction detail and transaction universes cannot be provided in a timely manner.
- Control activities for high transaction volume areas, such as FWT, are not designed or operating effectively.
- Service provider processes, risks, and controls are not integrated in the scope of testing if those processes are material to the assessable unit (auditable units).

Because the dealbreakers were systemic among the organizations reviewed, these problems may likely apply to additional ODOs. Despite the existence of these dealbreakers, all four ODOs asserted audit readiness. Three of the four organizations underwent a full or partial SBA examination in FY 2015, and DLA and DHA are scheduled to undergo full financial statement audits in FY 2016 and FY 2017, respectively. Therefore, OUSD(C) must continue to emphasize the implementation of effective controls or it will continue to risk being unable to resolve its longstanding FWT material weakness or achieve audit readiness.

## **Management Comments on the Finding and Our Response**

### *DSCA Comments on ODOs and DFAS Personnel Lacked Effective Controls Over Problem Disbursements*

The Principal Director of Business Operations, responding for the Director, DSCA, stated that the data used for this audit were out of scope because it included non-U.S. appropriated Foreign Military Sales (FMS) transactions, which were not relevant for the ODO FWT. As result, the findings were primarily related to FMS transactions. He stated that the inclusion of problem disbursements for FMS transactions in this report is out of scope and misrepresents the ODO FWT.

### *Our Response*

We determined whether ODOs had appropriate controls in place over the procure-to-pay process to ensure accurate, complete, and auditable line-item data for financial statement audits. Specifically, we reviewed whether controls were in place to ensure the accurate update in a timely manner of ODO expenditures identified as problem disbursements. Problem disbursements for FMS transactions

---

<sup>13</sup> FWT is an asset account on the general ledger.

were included in the OUSD(C) monthly problem disbursement reports prepared by DFAS. FMS transactions were also reflected in DoD financial statements and were within the scope of our review. Additionally, we cited the ODO FBWT reported by OUSD(C) as of September 30, 2015. Therefore, we did not misrepresent the ODO FBWT.

#### *DFAS Comments on ODOs and DFAS Personnel Lacked Effective Controls Over Problem Disbursements*

The Deputy Director of Operations, responding for the Director, DFAS, stated that a better planned audit with a consistent scope would have helped DFAS work more efficiently toward achieving the audit objective. DFAS believes that it provided a universe of transactions at summary and detail-level to support the problem disbursement reports; however, due to the numerous scope changes occurring during field work, there was a misperception that DFAS did not deliver a valid universe of transactions. Additionally, the Deputy Director stated that another point of confusion occurred with the reported transactions of the four ODOs listed as \$16.5 billion. DFAS believes the audit team computed the cumulative total of monthly activity rather than the average of problem disbursements per month.

#### *Our Response*

We narrowed the scope of the data request from all TI-97 problem disbursements to four ODOs because DFAS personnel stated that they did not have the ability to provide the data in a timely manner. Despite a narrowed scope, DFAS was still unable to provide the data by the requested date. DFAS also submitted incomplete data on several occasions, which required us to request the same data multiple times.

The \$16.5 billion is an accurate representation of problem disbursement transactions DFAS provided to us for September 2014. Based on comments received from DFAS on the discussion draft, we revised our report to reflect a single month-end balance rather than a cumulative total. Our analysis of the September 2014 problem disbursement balance clearly showed that the data provided by DFAS were inaccurate, incomplete, and unreliable. In addition, the Table in this report was copied from the September 2014 Financial Operations Metric reports (Problem Disbursements and In-Transits) that DFAS personnel prepared and provided to us.

## Recommendations, Management Comments, and Our Response

### **Recommendation 1**

We recommend that the Under Secretary of Defense (Comptroller) and the Deputy Chief Management Officer:

- a. **Develop a coordinated and standardized strategy with the Defense Finance and Accounting Service and the Other Defense Organizations to exchange and manage problem disbursement data. The strategy should focus on the end-to-end integrated business process that includes the identification of key internal and compensating controls at the Defense Finance and Accounting Service and the Other Defense Organizations.**

#### *Under Secretary of Defense Comptroller Comments*

The Deputy Chief Financial Officer (DCFO), responding for the Under Secretary of Defense (Comptroller) agreed, stating that as part of the Fourth Estate management for auditability, the DCFO has the lead on working with DFAS to develop a comprehensive FBWT strategy, which includes addressing the issues involving problem disbursements. DCFO and DFAS have identified the required capabilities necessary to drive the FBWT solution across the Fourth Estate. Both agencies are now working a joint effort to develop an implementation time line and interim milestones to drive the execution of the capabilities.

#### *Deputy Chief Management Officer Comments*

The DCMO agreed, stating that he concurs with the views and comments expressed by the DCFO.

#### *Our Response*

Comments from the DCFO and DCMO addressed all specifics of the recommendation, and no further comments are required.

- b. **Oversee the implementation of the strategy developed to exchange and manage problem disbursements to ensure that the process is standardized and systemized for the Other Defense Organizations.**

#### *Under Secretary of Defense Comptroller Comments*

The DCFO, responding for the Under Secretary of Defense (Comptroller) agreed, stating that the DCFO and DCMO through the FIAR Governance Board will review the strategy, implementation plan, critical timelines/milestones to track progress and assist with addressing implementation challenges.

### *Deputy Chief Management Officer Comments*

The DCMO agreed, stating that he concurs with the views and comments expressed by the DCFO.

### *Our Response*

Comments from the DCFO and DCMO addressed all specifics of the recommendation, and no further comments are required.

## **Recommendation 2**

**We recommend that the Directors, Other Defense Organizations and Defense Finance and Accounting Service revise service-level agreements based on the end-to-end business process identified. Service-level agreements should include clearly defined roles and responsibilities, internal controls, performance metrics, and quality assurance plans to ensure that detail-level data for problem disbursements are provided, and problem disbursements are reduced and corrected in a timely manner.**

### *Defense Logistics Agency Comments*

The Director of Finance, responding for the Director, DLA, agreed, stating that in FY 2015, DLA and DFAS signed a Mission Work Agreement (MWA) that describes the roles and responsibilities between DFAS as a service provider and DLA as a service receiver. The MWA details internal controls, performance metrics, and quality assurance plans to monitor and resolve problem disbursements. In addition, DLA and DFAS are currently finalizing a separate FBWT Concept of Operations that will expand this focus area to include a control matrix, evidential matter matrix and complementary user entity controls. The Concept of Operations is planned for completion by March 31, 2016. DLA and DFAS have established a Cash Management Report Tiger Team to help support the completeness of DLA's disbursements and collections by September 30, 2016.

### *Our Response*

Comments from the Director of Finance partially addressed the recommendation. The referenced MWA was signed in September 2014 and provides a general description of DFAS and DLA roles in processing and resolving problem disbursements. However, the MWA does not clearly define the specific roles and responsibilities between DFAS and DLA over the end-to-end process of processing and resolving problem disbursements. In addition, the MWA did not provide a description of DFAS' internal controls over resolving problem disbursements at a level to assess the risk of material misstatement as required by FIAR. Although a

separate FJWT Concept of Operations will assist in supplementing the MWA, DFAS and DLA should clearly document the roles and responsibilities over the end-to-end problem disbursement process and internal controls to ensure that detail-level data for problem disbursements are provided, and problem disbursements are timely reduced and corrected. Accordingly, the Director needs to provide comments discussing DFAS' intentions of updating the MWA and applicable completion dates.

#### *Defense Security Cooperation Agency Comments*

The Principal Director for Business Operations, responding for the Director, DSCA, agreed, stating that DSCA has begun working with its service providers to implement stronger controls to improve and substantially reduce the overall number of problem disbursements. DSCA has an existing MWA with DFAS dated December 2015 and will work to develop a supplemental memorandum of understanding to further define specific roles and responsibilities, audit response, internal controls, performance metrics, and quality assurance plans. DSCA takes responsibility for the oversight of problem disbursements and will develop, coordinate, and standardize a strategy with DFAS and the Military Departments to monitor the monthly progress of correcting problem disbursements.

#### *Our Response*

Comments from the Principal Director addressed all specifics of the recommendation, and no further comments are required.

#### *Missile Defense Agency Comments*

The Deputy Director, responding for the Director, MDA, agreed stating that DFAS personnel are coordinating an updated service level agreement with DFAS that is expected to be signed in May 2016. MDA personnel stated that they will continue to collaborate closely with DFAS to prevent and reduce the number of MDA problem disbursements, and to identify and resolve problem disbursements in a timely manner. Additionally, they will work with the Office of the Secretary of Defense Comptroller and DFAS to assist in identifying process improvements and update DFAS service level agreements.

#### *Our Response*

Comments from the Deputy Director addressed all specifics of the recommendation, and no further comments are required.

### *Defense Finance and Accounting Service Comments*

The Deputy Director of Operations, responding for the Director, DFAS, agreed, stating that DFAS established mission work agreements (MWA) to meet the intent of our recommendation with the customers named in the draft report: DLA, DHA, MDA, and DSCA.

### *Our Response*

Comments from the Deputy Director partially addressed the recommendation. The MWAs provided were not updated and did not meet the intent of the recommendation. The MWA submitted for DLA has not been revised since September 2014. The MWAs submitted for DHA and DSCA were revised, however, they did not include clearly defined roles and responsibilities, internal controls, performance metrics, and quality assurance plans to ensure that detail-level problem disbursements could be provided and that problem disbursements were corrected and reduced in a timely manner. Additionally, the MWA submitted for MDA was not signed by MDA's management. We request the Deputy Director provide additional comments to the final report with completion dates.

## **Management Comments Not Received**

### **Recommendation 2**

**We recommend that the Directors, Other Defense Organizations and Defense Finance and Accounting Service revise service-level agreements based on the end-to-end business process identified. Service-level agreements should include clearly defined roles and responsibilities, internal controls, performance metrics, and quality assurance plans to ensure that detail-level data for problem disbursements are provided, and problem disbursements are reduced and corrected in a timely manner.**

### *Management Comments Required*

The Director, DHA, did not respond to the recommendation. We request that the Director provide comments on the final report.

## Management Unsolicited Comments

### *Under Secretary of Defense Comptroller Comments*

Although not required to comment, the DCFO, responding for the Under Secretary of Defense (Comptroller), agreed with Recommendation 2. The DCFO stated that the Comptroller developed a standard memorandum of understanding template that defines the responsibilities between the reporting entity and service provider in support of audit readiness and audit sustainment efforts.

### *Our Response*

A standard memorandum of understanding template that defines the responsibilities between the reporting entity and service provider will assist in supporting audit readiness and audit sustainment efforts.

### *Defense Health Agency Contract Resource Management*

Although not required to comment, the Chief, DHA Contract Resource Management (DHA-CRM), agreed with Recommendations 1 and 2. The Chief stated that the service-level agreements should be updated to provide descriptive language on the defined roles and responsibilities. In some instances, DHA-CRM personnel find it difficult to identify responsible parties at DFAS to assist in resolving out of balance problem disbursements. However, the Chief disagreed with some elements of the Finding. The Chief stated that it maintains a universe of all accounting transactions processed daily to include disbursements. Additionally, DHA-CRM personnel perform a complete, detail-level FBWT reconciliation on a monthly basis due to being a direct disbursing entity with the U.S Treasury.

### *Our Response*

We agree with the comments provided by the Chief. We acknowledge the efforts of DHA-CRM throughout the report; however, the Finding is directed to DHA as an entity and not the individual components.

# Appendix

## Scope and Methodology

We performed this audit from November 2014 through December 2015 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We performed a risk assessment to identify ODOs at greatest risk to impact FBWT and the financial statements. We considered the:

- dollar value of the problem disbursement transactions from October 2012 through September 2014;
- materiality to the procure to pay process; and
- materiality to the TI-97 financial statements.

Based on the results of our risk assessment, we nonstatistically selected four ODOs (DHA, DLA, DSCA, and MDA) to perform additional audit work.

For the four ODOs selected, we requested and obtained detail-level problem disbursement data and OUSD(C) metrics data from April 2013 through September 2014. This was the most recent 18 months of data that DFAS could provide. For these ODOs, we also received summary-level problem disbursement data from May 2013 through October 2014 from DFAS. Because of the amount and reliability of the data, we focused our analysis on September 2014. We used this data to:

- analyze and reconcile detail-level to summary-level transactions to summary-level transactions;
  - interview DFAS personnel to determine the cause of variances across the two sets of transactions;
- analyze OUSD(C) metric reports to determine if problem disbursements were corrected and posted timely;<sup>14</sup>
- analyze detail-level transactions and DFAS Columbus and Indianapolis standard operating procedures to identify the organizations or sources of the problem disbursement data;
  - coordinate with DFAS personnel to identify sources.

<sup>14</sup> The timelines for resolving problem disbursements vary depending on the type of disbursement – See page 11 for OUSD(C) established timelines.

Additionally, we obtained and reviewed SBA assertion packages and service-level agreements for the selected ODOs. We compared the service-level agreements to requirements outlined in DoD policy.

We discussed DRRT with DFAS personnel and obtained implementation dates for the ODOs reviewed. FIAR identified DRRT as the tool to reconcile FBWT for TI-97 funds. However, the tool was recently implemented at three of the four ODOs reviewed and was not fully functional. Therefore, we did not perform system controls or transactional testing of DRRT.

To assess controls, we interviewed key management and functional personnel from DFAS and the selected ODOs to determine the processes to identify, resolve, and report problem disbursements for TI-97 funds. We also researched public laws, DoD regulations, and local standard operating procedures related to problem disbursements.

## Use of Computer-Processed Data

We tested the reliability of computer-generated data that DFAS personnel obtained from more than 271 sources. Sources of data included organizations and automated systems such as General Fund Enterprise Business System and Defense Cash Accountability System. The data were submitted using e-mail or a shared drive or downloaded from multiple databases. We compared the detail-level problem disbursement transactions with a total absolute value of about \$16.5 billion to summary-level transactions with a total absolute value of about \$3.7 billion received from DFAS personnel for September 2014.

Based on our analysis, we determined that the detail-level and summary-level data provided by DFAS personnel for the selected ODOs were not accurate or complete. The data reliability problems we identified are discussed in the finding.

## Use of Technical Assistance

We did not use technical assistance for this audit.

## Prior Coverage

During the last 5 years, the Government Accountability Office (GAO) has issued one report discussing the procure-to-pay process and its impact on financial audit readiness. Unrestricted GAO reports can be accessed at <http://www.gao.gov>.

## GAO

Report No. GAO-14-10, "DoD Financial Management: The Defense Finance and Accounting Service Needs to Fully Implement Financial Improvements for Contract Pay," June 23, 2014

## Management Comments

### Under Secretary of Defense Comptroller



OFFICE OF THE UNDER SECRETARY OF DEFENSE  
1100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1100

FEB 23 2016

MEMORANDUM FOR PROGRAM DIRECTOR, FINANCIAL MANAGEMENT AND  
REPORTING, OFFICE OF INSPECTOR GENERAL,  
DEPARTMENT OF DEFENSE

SUBJECT: Comments to Draft Audit Report "Other Defense Organizations and Defense  
Finance and Accounting Service Controls Over High-Risk Transactions Were Not  
Effective", (Project No. D2015-D000FE-0078.000)

This memorandum responds on behalf of the Under Secretary of Defense (Comptroller) to the subject Department of Defense Office of the Inspector General draft audit report dated January 26, 2016. Comments to the recommendations made to the Comptroller are contained in the attached.

Additionally, with respect to Recommendation 2 in the report, we have developed a standard Memorandum of Understanding (MOU) template that defines the responsibilities between the reporting entity and service provider in support of audit readiness and audit sustainment efforts. The MOU is currently being disseminated and will serve as a baseline and/or reference document for the Other Defense Organizations to use for developing or updating their MOUs. The MOU will be approved by key management representatives as a key audit readiness document for establishing an agreement between the reporting entity and service provider. Implementation will be tracked by my Financial Improvement and Audit Readiness office.

We appreciate the opportunity to respond to the draft audit report and the Office of the Inspector General's continued support in assisting the Department in reaching its audit readiness and sustainment goals. My point of contact is [REDACTED]

Mark E. Easton  
Deputy Chief Financial Officer

Attachment:  
As stated

## Under Secretary of Defense Comptroller (cont'd)

DEPARTMENT OF DEFENSE OFFICE OF INSPECTOR GENERAL  
PROJECT NO. D2015-D000FE-0078.000

"OTHER DEFENSE ORGANIZATIONS AND DEFENSE FINANCE AND ACCOUNTING SERVICE CONTROLS OVER HIGH-RISK TRANSACTIONS WERE NOT EFFECTIVE", DRAFT REPORT DATED JANUARY 26, 2016

OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER) (OUSDC)  
COMMENTS TO THE DRAFT REPORT RECOMMENDATIONS

**RECOMMENDATION 1:** We recommend that the Office of the Secretary of Defense (Comptroller) and Deputy Chief Management Officer (DCMO):

a. Develop a coordinated and standardized strategy with the Defense Finance and Accounting Service and the Other Defense Organizations to exchange and manage problem disbursement data. The strategy should focus on the end-to-end integrated business process that includes the identification of key internal and compensating controls at the Defense Finance and Accounting Service (DFAS) and the Other Defense Organizations (ODOs).

**OUSDC RESPONSE:** Concur. As part of the Fourth Estate management for auditability, the Deputy Chief Financial Officer (DCFO) has the lead on working with the DFAS to develop a comprehensive Funds Balance With Treasury (FBWT) strategy which includes addressing the issues involving problem disbursements. The DCFO and DFAS have identified the required capabilities necessary to drive the FBWT solution across the Fourth Estate. We are now working a joint effort to develop an implementation timeline and interim milestones to drive the execution of the capabilities.

b. Oversee the implementation of the strategy developed to exchange and manage problem disbursements to ensure that the process is standardized and systemized for the Other Defense Organizations.

**OUSDC RESPONSE:** Concur. The DCFO and DCMO through the Financial Improvement and Audit Readiness Governance Board will review the strategy, implementation plan, critical timelines/milestones to track progress and assist with addressing implementation challenges.

Attachment

## Deputy Chief Management Officer



DEPUTY CHIEF MANAGEMENT OFFICER  
9010 DEFENSE PENTAGON  
WASHINGTON, DC 20301-9010

MAR 01 2016

MEMORANDUM FOR PROGRAM DIRECTOR, FINANCIAL MANAGEMENT AND REPORTING, OFFICE OF INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Comments to Draft Audit Report "Other Defense Organizations and Defense Finance and Accounting Service Controls Over High-Risk Transactions Were Not Effective," (Project No. D2015-D000FE-0078.000)

This memorandum responds to the subject DoD Office of the Inspector General (IG) draft audit report dated January 26, 2016. The DCMO concurs with the views and comments expressed by the DCFO.

We appreciate the opportunity to respond to the draft audit report and the Office of the IG's continued support in assisting the Department in reaching its audit readiness and sustainment goals. My point of contact is [REDACTED]

A handwritten signature in black ink, appearing to read "Peter Levine".

Peter Levine

# Defense Logistics Agency



DEFENSE LOGISTICS AGENCY  
HEADQUARTERS  
8725 JOHN J. KINGMAN ROAD  
FORT BELVOIR, VIRGINIA 22060-6221

FEB 22 2016

## MEMORANDUM FOR DIRECTOR, DLA INSPECTOR GENERAL

SUBJECT: Management Comments to the Department of Defense Inspector General Draft Report for Other Defense Organizations and Defense Finance and Accounting Service (DFAS) Controls Over High-Risk Transactions Were Not Effective, Project No. D2015-D000FE-0078.000

In response to the subject audit, Defense Logistics Agency (DLA) has the following management comment:

Recommendation 2: We recommend the Directors of Other Defense Organizations and DFAS revise service-level agreements based on the end-to-end business process identified. These agreements should include clearly defined roles and responsibilities, internal controls, performance metrics, and quality assurance plans to provide detail-level data and timely correct and reduce problem disbursements.

Management's Comment: DLA concurs. In Fiscal Year 2015, DLA and DFAS signed a Mission Work Agreement (MWA) that describes the roles and responsibilities between DFAS as a Service Provider and DLA as a Service Receiver. The MWA details internal controls, performance metrics and quality assurance plans to monitor and resolve problem disbursements. In addition, DLA and DFAS are currently finalizing a separate Fund Balance with Treasury (FBWT) Concept of Operations (CONOPs) that will expand this focus area to include a control matrix, evidential matter matrix and complementary user entity controls. The FBWT CONOPs is planned for completion by March 31, 2016.

DLA is continuing to work with DFAS on detail-level data and unidentified differences between the Cash Management Report (CMR) and Department of Treasury's balance. We have established a CMR Tiger Team to help support the completeness of DLA's disbursements and collections by September 30, 2016.

Point of contact for this action is [REDACTED]

J. ANTHONY POLEO  
Director, DLA Finance  
Chief Financial Officer

Attachment: Request for Security Marking Review

## Defense Security Cooperation Agency



DEFENSE SECURITY COOPERATION AGENCY  
201 12TH STREET SOUTH, STE 203  
ARLINGTON, VA 22202-5408

FEB 22 2016

### MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL

**SUBJECT:** Response to Department of Defense Inspector General Draft Report, "Other Defense Organizations and Defense Finance and Accounting Service Controls Over High-Risk Transactions Were Not Effective" (Project No. D2015-D000FE-0078.000)

**Reference:** "Other Defense Organizations and Defense Finance and Accounting Service Controls Over High-Risk Transactions Were Not Effective" (Project No. D2015-D000FE-0078.000), Draft Report, released January 26, 2016

The Defense Security Cooperation Agency (DSCA) concurs with both the findings and recommendations that affect the DSCA; however, there are qualifiers with the findings contained in the subject draft report issued on January 26, 2016.

The objective of this DoDIG audit was to determine whether Other Defense Organizations (ODOs) had appropriate controls in place to ensure accurate, complete, and auditable line-item data for all financial statement audits. Specifically, to determine the accurate and timely update of expenditures identified as problem disbursements since it is high-risk to the ODO Fund Balance with Treasury (FBwT) reconciliations. September 2014 problem disbursement data provided by DFAS was used to make these determinations.

However, the data used for this audit was out of scope because it included non-U.S. appropriated Foreign Military Sales (FMS) transactions which are not relevant for ODO FBwT, and drove findings primarily related to FMS transactions vice DoD General Funds. Despite the misaligned scope, the DSCA accepts the findings and recommendations, and has begun working with our Service Providers to implement stronger controls to improve and substantially reduce the overall number of problem disbursements.

The DSCA has an existing Mission Work Agreement (MWA) with DFAS dated December 2015 and will work to develop a supplemental Memorandum of Understanding (MOU) to further define specific roles and responsibilities, audit response, internal controls, performance metrics, and quality assurance plans.

In addition, the DSCA is working to standardize audit readiness and sustainment language for all DSCA Service Providers in line with OUSD(C) FIAR guidance. This standardized language will identify, define and delineate roles and responsibilities at the key control activity and key supporting documentation level, in an effort to obtain and sustain



## Defense Security Cooperation Agency (cont'd)

successful assertions and audits with respect to the service exchanged between the DSCA and the Service Providers.

The report states that the DSCA asserted audit readiness despite the existence of dealbreakers; however, it must be noted that the DSCA asserted audit readiness for DoD General Funds, not the FMS Trust Fund. The DSCA is the executive agency over the FMS Trust Fund; however, the trust fund is not an appropriated funds program. The inclusion of problem disbursements for FMS transactions in this report is out of scope and misrepresents the ODO Fund Balance with Treasury (FBwT).

The DSCA funds are primarily executed by the Military Departments (MILDEPS) in their individual systems; however, the DSCA takes responsibility for the oversight of problem disbursements and will develop, coordinate, and standardize a strategy with DFAS and the MILDEPS to monitor the monthly progress of correcting problem disbursements. Specifically, the DSCA will monitor the monthly progress of correcting problem disbursements for the three identified areas in the report: unmatched disbursements (UMD) and negative unliquidated obligations (NULO) less than 120 days old must be reduced by 10% per year; UMDs and NULOs are averaged if greater than 120 days old; and in-transit disbursements and collections increase more than 5 percent over the previous month's value, and are averaged if greater than 60 days old.

The DSCA has documented a standardized process and developed reporting tools for high-risk transactions, specifically ULOs and NULOs, in order to better manage established OUSD metrics for this population. Significant progress has been made in departmental awareness and engagement across the DSCA's eight domestic and international components to control and minimize this population using effective management processes. The DSCA will continue to improve processes to strive for consistent completion of the Triannual Review and management of high-risk transactions.

We appreciate the opportunity to review the draft report and your review of this important subject. The Agency welcomes the findings as a method for identifying areas of potential weakness and a means for improving operational procedures.

My point of contact concerning this matter is [REDACTED]  
[REDACTED]



James Worm  
Principal Director  
Business Operations

## Missile Defense Agency



DEPARTMENT OF DEFENSE  
MISSILE DEFENSE AGENCY  
5700 18<sup>TH</sup> STREET  
FORT BELVOIR, VIRGINIA 22060-5573

IR

FEB 26 2016

### MEMORANDUM FOR PROGRAM DIRECTOR, FINANCIAL MANAGEMENT AND REPORTING

SUBJECT: Other Defense Organizations and Defense Finance and Accounting Service Controls Over Other High-Risk Transactions Were Not Effective (Project No. D2015-D000FE-0078.000)

This is the Missile Defense Agency's (MDA) response to the subject draft report. We concur with recommendation two and are currently coordinating an updated service-level agreement with the Defense Finance and Accounting Service (DFAS). We expect to have it signed in May 2016. We will continue to collaborate closely with DFAS to prevent and reduce the number of MDA problem disbursements, and to identify and resolve problem disbursements in a timely manner. We will also work closely with the Office of the Secretary of Defense Comptroller and DFAS to assist in identifying process improvements and update DFAS service-level agreements accordingly.

If you have any questions, please contact [REDACTED] at [REDACTED] or [REDACTED]

OLE KNUDSON  
Major General, USA  
Deputy Director

## Defense Finance and Accounting Service



DEFENSE FINANCE AND ACCOUNTING SERVICE  
8899 EAST 56<sup>TH</sup> STREET  
INDIANAPOLIS, IN 46249-0201

### MEMORANDUM FOR PROGRAM DIRECTOR, FINANCIAL MANAGEMENT AND REPORTING

SUBJECT: Management Comments to DODIG Draft Audit Report for Other Defense Organizations and Defense Finance and Accounting Service Controls Over High Risk Transactions Were not Effective, Project Number D2015-D000FE-0078.000 dated January 26, 2016

The attached management comments will close recommendation 2. Overall management comments for the draft audit report are also included.

My point of contact for additional information is [REDACTED] at [REDACTED]

[REDACTED]  
[REDACTED]

David E. McDermott  
Deputy Director, Operations

Attachment:  
As stated

[www.dfas.mil](http://www.dfas.mil)

## Defense Finance and Accounting Service (cont'd)

### **Management Comments to DODIG Draft Audit Report for Other Defense Organizations and Defense Finance and Accounting Service Controls Over High Risk Transactions Were Not Effective, Project Number D2015-D000FE-0078.000 dated January 26, 2016**

**Recommendation 2:** We recommend that the Directors, Other Defense Organizations and Defense Finance and Accounting Service revise service-level agreements based on the end-to-end business process identified. Service-level agreements should include clearly defined roles and responsibilities, internal controls, performance metrics, and quality assurance plans to provide problem disbursement detail-level data and timely correct and reduce problem disbursements.

**DFAS Management Comments:** Concur. DFAS established mission work agreements (MWA) fulfilling the intent of this recommendation with the customers named in this draft audit report: Defense Logistics Agency (DLA), Defense Health Agency (DHA), Missile Defense Agency (MDA), and Defense Security Cooperation Agency (DSCA).

**Completed Date:** DFAS considers this recommendation closed.

### **DFAS MANAGEMENT OVERALL COMMENTS**

A better planned audit with a consistent scope would have helped DFAS work more efficiently toward achieving the audit objective of determining whether Other Defense Organizations (ODOs) had appropriate controls in place over the procure-to-pay process to ensure accurate, complete, and auditable line-item data for the Schedule of Budgetary Activities (SBA).

Throughout the audit, there were a number of scope changes and multiple requests for similar information. A lack of clear communication between our organizations and the execution of this audit appears to have resulted in a misunderstanding of the facts and findings.

Specifically, the DoDIG reported DFAS could not provide a universe of detail or summary-level problem disbursement transactions. We believe DFAS did provide a Universe of Transactions (UoT) at a summary and detail level to support the problem disbursement reports; however, due to the numerous scope changes occurring during field work, such as DODIG asking for the entire TI97 universe, and then ultimately narrowing down and agreeing to only four ODOs, there was a misperception that DFAS did not deliver a valid UoT.

Additionally, when stratifying data, another point of confusion occurred with the reported transactions of the four ODOs was listed as \$16.5 billion. For the 18 month period in review, all ODO's derived an average monthly problem disbursement balance of \$2.8 billion (absolute). We believe the audit team computed the cumulative total of monthly activity rather than the average of problem disbursements per month.

## Defense Finance and Accounting Service (cont'd)

### DFAS MANAGEMENT COMMENTS TO THE DRAFT REPORT

#### Fund Balance With Treasury and TI 97

**DFAS Comments:** DFAS agrees with the \$88.8 billion TI 97 Other Defense Organizations (ODO) FBWT as the amount reported on the ODO General Fund and Working Capital Fund Balance Sheet. Included in this are all General Funds, Suspense Accounts, Deposit Funds, Revolving Funds, Special Funds, and Trust Funds except for MRF, MERHCF, and any Executive Office of the President accounts). Also excluded is the Foreign Military Sales Trust Fund.

We believe the scope of the FBWT is misrepresented due to the inclusion of the Foreign Military Sales Trust Fund (97-11X8242) which in actuality, are the amounts reflected in an appendix to the DoD Agency Financial Report for 4th Quarter Fiscal Year 2014.

#### Roles and Responsibilities

**DFAS Comments:** Change the bullet for DHA to read: DHA consists of seven separate components including Financial Operations Division, Contract Resource Management, Uniformed Services University of Health Sciences, Service Medical Activity – Navy, Service Medical Activity – Army, Service Medical Activity – Air Force, and the National Capital Region.

**DFAS Comments:** DSCA is the executive agency over the Foreign Military Sales Trust Fund; however, the trust fund is not an appropriated program for DSCA. Therefore, including FMS funds in the TI 97 ODO FBWT is incorrect and should be removed. We are not discounting that there are problem disbursements in the fund, but these non-appropriated funds were erroneously identified in the report. DSCA has not asserted to audit readiness for 8242 funds.

#### Material Weakness

**DFAS Comments:** DFAS provided the Universe of Transactions (UoT) at a summary level to support the problem disbursement reports. The UoT provided to the DoDIG was for the entire UoT of problem disbursements reported for DoD with the exception of TI 57 (Air Force) and TI 17 (Navy). Numerous scope changes occurred during the field work as the Defense Agency business is complex and both auditors and auditees worked to understand scope requirements for the audit. Characterizing this effort that DFAS could not provide a universe is not factual. The original PBC request was for the entire TI 97 universe of problem disbursements, not limited to the four ODOs and TI 21 was added due to follow-up meetings and discussions. Upon further discussion, the original PBC request should have been limited to the four ODOs.

**On the footnote:**<sup>1</sup> DSCA problem disbursements included foreign military sales transactions. Although foreign military sales transactions do not directly impact FBWT,

## Defense Finance and Accounting Service (cont'd)

the transactions were included in problem disbursements and do impact FMS Trust Fund account balances.

**DFAS Comment:** DSCA is the executive agency over the Foreign Military Sales Trust Fund; however, the trust fund is not an appropriated program for DSCA. Therefore, including FMS funds in the TI 97 ODO FBWT is incorrect.

### Finding

On page 5, paragraph 2: DFAS Cleveland, Limestone, and Rome did not provide any detail-level transactions although the summary-level data showed that problem disbursements for TI-97 funds were processed by these locations. As a result, neither the detail nor summary-level data were complete.

**DFAS Comment:** The UoT of transactions would not have been required from DFAS Cleveland, Limestone, or Rome as their networks were out of scope of the audit.

### **ODOs and DFAS Lacked a Complete Universe of Problem Disbursements**

Of the detail-level transactions for the four ODOs valued at \$16.5 billion, \$10.2 billion (62 percent) was attributed to Army General Fund (TI-21) and the Executive Office of the President (TI-11)—not TI-97 transactions.

**DFAS Comments:** The \$16.5 billion balance is an inaccurate representation of the problem disbursement values. It appears the totals in the report were the cumulative total of the monthly activity rather than an average of problem disbursements per month. Using an average of the 18 months balances accurately represents the problem disbursement balances. For all ODO's, DFAS derived an average monthly problem disbursement balance over the 18 month period was \$2.8 billion (absolute).

**Additional Comments:** These balances were updated, but we believe the same auditor reporting errors continue with the smaller scope for the four defense agencies. This is difficult for management to confirm as we have not had an opportunity to see their calculations.

## Defense Finance and Accounting Service (cont'd)

### **Problem Disbursements were not resolved timely**

**DFAS Comments:** The table depicted on page 7 of the discussion draft does not reconcile to the source documentation provided. We believe the table below accurately reflects the numbers reported. The .79% is the impact to the budgetary resources. UMTs and in-transit 0-30 days are not considered problem disbursements.

ODO	Unmatched Transactions and Negative Unliquidated Obligations		In-transit Disbursements		Budgetary Resources	Percentage of Budgetary Resources
	31-120 days	121+ days	31-60 days	61+ days		
DHA	\$0.8	\$10.8	\$9.1	\$33.3	\$41,968.4	0.13%
DLA	46.8	52.2	129.0	377.1	45,563.5	1.33%
DSCA	2.9	1.7	3.1	20.5	5,659.5	0.50%
MDA	5.8	0.3	2.3	116.2	9,069.4	1.37%
Total	\$56.3	\$65.0	\$143.5	\$547.1	\$102,260.8	.79%

Dollar values in absolute value and in millions. This data source is derived from data files used to create the OUSD Fin Ops Metrics. We excluded FMS from this table for DSCA. However FMS is included within DSCA in the table above.

## Defense Health Agency



DEFENSE  
HEALTH AGENCY

CRM

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE  
HEALTH AFFAIRS  
16401 EAST CENTRETECH PARKWAY  
AURORA, CO 80011-9066

February 18, 2016

### MEMORANDUM FOR THE INSPECTOR GENERAL

SUBJECT: Project No. D2015-D000FE-0078.000 Draft Report

Defense Health Agency-Contract Resource Management (DHA-CRM) disagrees with a few of the findings concerning a complete, accurate, or reliable universe of transactions and the reconciliation with Funds Balance with Treasury (FBWT).

Comments: (Pg4-Finding). DHA-CRM maintains a universe of all accounting transactions processed daily to include disbursements. We maintain a detail tracking spreadsheet on the out of balance amounts contained on the Cash Management Report (CMR) which equates to our only "Problem Disbursements". On a daily basis, we work with DFAS Indy requesting their assistance in correcting the out of balance amounts.

(Pg4-ODOs and DFAS Lacked a Complete Universe of Problem Disbursements). DHA-CRM performs a complete detail level FBWT reconciliation on a monthly basis due to being a direct disbursing entity with the U.S. Treasury.

We are in full agreement with the two recommendations provided in the report.

(Pg8-Roles and Responsibilities in Service-Level Agreements Were Not Clearly Defined). We agree that the SLA agreements need to be better defined on the roles and responsibilities. We would like to state that DHA-CRM is fully responsible for the data contained in our Financial Statements. Even though DFAS prepares the quarterly statements; we validate 100% of the amounts represented in each statement. We work very closely with DFAS to ensure all discrepancies are addressed. Maintaining and updating the Service Level Agreement are not at our level, but DHA-CRM would definitely like to see the agreements updated to provide descriptive language on the defined roles and responsibilities. In some instances, we find it difficult to identify responsible parties at DFAS to assist us in resolving out of balance problem disbursements.

We have implemented a monthly detailed cross-disbursement spreadsheet to reconcile and track all out of balance details. We utilize the DFAS File file spreadsheet to identify the services organizations processing the cross disbursements incorrectly and work with DFAS to ensure corrections are made in a timely manner. These efforts have enabled us to reduce the problem disbursement amounts for the current fiscal year to zero. We are still working with DFAS to resolve prior year CMR balances.

Graham D. Ininns, CMA, FACHE  
Chief, Contract Resource Management  
Program Manager, Tricare E-Commerce System  
Defense Health Agency

# Acronyms and Abbreviations

---

<b>DCFO</b>	Deputy Chief Financial Officer
<b>DCMO</b>	DoD Deputy Chief Management Officer
<b>DFAS</b>	Defense Finance and Accounting Service
<b>DHA</b>	Defense Health Agency
<b>DHA-CRM</b>	Defense Health Agency—Contract Resource Management
<b>DLA</b>	Defense Logistics Agency
<b>DRRT</b>	Defense Reconciliation and Reporting Tool
<b>DSCA</b>	Defense Security Cooperation Agency
<b>FBWT</b>	Fund Balance With Treasury
<b>FIAR</b>	Office Of The Secretary Of Defense (Comptroller), Financial Improvement And Audit Readiness
<b>FMS</b>	Foreign Military Sales
<b>GAO</b>	Government Accountability Office
<b>MWA</b>	Mission Work Agreement
<b>MDA</b>	Missile Defense Agency
<b>ODO</b>	Other Defense Organization
<b>OUSD(C)</b>	Office Of The Under Secretary Of Defense (Comptroller)
<b>SBA</b>	Schedule Of Budgetary Activity
<b>TI</b>	U.S. Treasury Index



# **Whistleblower Protection**

## **U.S. DEPARTMENT OF DEFENSE**

*The Whistleblower Protection Enhancement Act of 2012 requires the Inspector General to designate a Whistleblower Protection Ombudsman to educate agency employees about prohibitions on retaliation, and rights and remedies against retaliation for protected disclosures. The designated ombudsman is the DoD Hotline Director. For more information on your rights and remedies against retaliation, visit [www.dodig.mil/programs/whistleblower](http://www.dodig.mil/programs/whistleblower).*

## **For more information about DoD IG reports or activities, please contact us:**

**Congressional Liaison**  
[congressional@dodig.mil](mailto:congressional@dodig.mil); 703.604.8324

**Media Contact**  
[public.affairs@dodig.mil](mailto:public.affairs@dodig.mil); 703.604.8324

**For Report Notifications**  
[http://www.dodig.mil/pubs/email\\_update.cfm](http://www.dodig.mil/pubs/email_update.cfm)

**Twitter**  
[twitter.com/DoD\\_IG](https://twitter.com/DoD_IG)

**DoD Hotline**  
[dodig.mil/hotline](http://dodig.mil/hotline)



DEPARTMENT OF DEFENSE | INSPECTOR GENERAL

4800 Mark Center Drive  
Alexandria, VA 22350-1500

[www.dodig.mil](http://www.dodig.mil)

Defense Hotline 1.800.424.9098

